

Message Text

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41

ACTION SS-25

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FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 1074

S E C R E T TEHRAN 3445

EXDIS

E.O. 11652: XGDS-1

TAGS: PFOR, IR

SUBJ: SUBSTANTIVE PREPARATION FOR SHAH'S VISIT

REF: TEHRAN 3058

1. AS REPORTED REFTTEL, THE SHAH WANTS TO ENGAGE IN SUBSTANTIVE DISCUSSIONS IN WASHINGTON AIMED AT DETERMINING HOW WILLING AND ABLE UNITED STATES IS TO COOPERATE WITH IRAN ON ECONOMIC, MILITARY AND TECHNICAL ARRANGEMENTS TO WHICH HE ATTACHES KEY IMPORTANCE. IF WE RESPOND BY DEFERRAL OR CONDITIONING OR OBFUSCATION, HE IS LIKELY TO CONCLUDE THAT WE ARE NOW ASSUMING A NEGATIVE POSTURE TOWARD IRAN BEING A FULL AND TRUSTED PARTNER OF THE UNITED STATES AND THAT IT MAY BE NECESSARY FOR IRAN TO EXAMINE ALTERNATIVE OPTIONS FAR MORE ACTIVELY.

2. IN THE CIVILIAN SECTOR, IN OUR VIEW, IT IS THE NUCLEAR ENERGY AGREEMENT AND RELATED US PARTICIPATION IN IRAN'S NUCLEAR POWER AND DESALINIZATION PROGRAM AND IRANIAN PARTICIPATION IN THE US URANIUM ENRICHMENT PROGRAM THAT IS OF PARAMOUNT INTEREST TO THE SHAH. AS WE ARE SPELLING OUT IN MORE DETAIL IN A SEPARATE MESSAGE, WE BELIEVE AGREEMENT ON THESE MATTERS PRIOR TO, OR TO BE CONCLUDED AT THE TIME THE SHAH IS IN WASHINGTON, ARE CRITICAL TO THE SUCCESS OF HIS VISIT.

3. A SECOND MAJOR ELEMENT OF THE SHAH'S INDUSTRIALIZATION PLAN IS THE DEVELOPMENT OF MAJOR PETROCHEMICAL INDUSTRIES IN ASSOCIATION WITH US AND OTHER FOREIGN COMPANIES. SOME OF THESE

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PROJECTS DEPEND ON ACCESS TO THE US MARKET AND SOME INVOLVE

COUNTERPART JOINT VENTURES BY IRANIAN PUBLIC CORPORATIONS IN PETRO-CHEMICAL PROCESSING IN THE UNITED STATES. TO OUR KNOWLEDGE NONE ASSUME USG SUBSIDIES AND/OR SPECIAL PROTECTION. AS THESE WERE ALL MATTERS RAISED DURING COMMITTEE MEETINGS OR THE MEETING OF THE JOINT COMMISSION ITSELF IN MARCH, IRAN WILL DOUBTLESS HOPE THAT WE CAN RESOLVE SUCH ENERGY AND INWARD INVESTMENT POLICY ISSUES AS WE MAY HAVE BY THE TIME OF THE SHAH'S VISIT IN MAY. A POSITIVE DECISION TO APPROVE AT LEAST ONE OF THE MAJOR PETROCHEMICAL PROJECTS WOULD EVIDENCE SERIOUS US INTENT TO DEAL WITH IRAN IN THE SPIRIT OF THE JOINT COMMISSION COMMUNIQUE.

4. ON ANOTHER TOPIC, WE APPRECIATE THAT THE MAJOR EL PASO/IRAN LNG PROJECT RAISES MORE DIFFICULT AND PROFOUND US ECONOMIC AND ENERGY POLICY ISSUES AND MAY REQUIRE SOME TIME BEFORE THEY ARE RESOLVED. IF THIS CANNOT BE ACHIEVED BY THE TIME OF THE SHAH'S VISIT, WE WOULD HOPE THAT AT A MINIMUM WE COULD REASSURE HIM THAT OUR FINAL CONCLUSIONS WOULD NOT DISCRIMINATE AGAINST IRAN AS A SOURCE OF LNG FOR ANY REASON OTHER THAN COMPETITIVE PRICES FROM OTHER SUPPLIERS.

5. WHILE THE PROSPECTS OF AN OIL CONSUMER/PRODUCER CONFERENCE AND ITS OUTCOME ARE STILL UNCERTAIN, WE CAN EXPECT THE SHAH TO CONTINUE TO PRESS HIS CASE FOR MAINTAINING PARITY FOR OIL VERSUS INDUSTRIAL GOODS PRICES AND FOR OUR LATEST THINKING ON THIS SUBJECT. HE HAS ALREADY STATED PUBLICLY THAT IF AGREEMENT CANNOT BE REACHED FURTHER UNILATERAL OIL-PRICE INCREASES MAY BE IN PROSPECT AND ALSO THAT THESE PRICES MAY BE DENOMINATED IN OTHER THAN DOLLAR TERMS.

6. AS REPORTED REFTTEL, SHAH WILL PROBABLY EXPRESS CONCERN THAT USG, RESPONDING TO PRESSURES FROM OUTSIDE EXECUTIVE BRANCH, MAY TIGHTEN ARMS SUPPLY POLICY, POSSIBLY HALTING DELIVERIES OR IMPOSING RESTRICTIONS ON SALES. WE BELIEVE HE MAY ALSO VOICE DISPLEASURE AT RAPIDLY RISING PRICES FOR EQUIPMENT AND SERVICES. THIS HAS BEEN A RECURRING THEME WITH GENERAL TOUFANIAN OVER PAST WEEKS. EARLIER IRANIAN INTEREST IN PUSHING FORWARD TOWARD MAVERICK CO-PRODUCTION PROJECTS SEEMS TO HAVE BEEN TAKEN OFF AGENDA BY RECENT PRELIMINARY UNDERSTANDING WITH HUGHES. GOI-HUGHES DISCUSSIONS RE CONTRACT

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TERMS, ESPECIALLY ROYALTY PAYMENTS, ARE SCHEDULED THIS MONTH. IF TWO PARTIES ARE UNABLE TO COME TO TERMS BEFORE SHAH'S DEPARTURE, THIS ITEM MAY ALSO BE BACK ON AGENDA.
HELMS

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